

External Quality Assessment of Internal Audit against the Public Sector Internal Audit Standards

1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (the 'Standards'), which have been in place since April 2013 (revised April 2016 and April 2017). The objectives of the Standards are to:
- define the nature of internal auditing within the UK public sector
 - set basic principles for carrying out internal audit in the UK public sector
 - establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
 - establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.2 The Standards require that, in order to independently assess conformance with these Standards, an external assessment of the internal audit function must be conducted at least once every five years, and the first such assessment must be completed by April 2018.
- 1.3 The purpose of this report is to inform Members regarding:
- requirements of the Standards in respect of the external assessment of the internal audit function, including the form that the external assessment will take and how the assessor was chosen
 - what the assessment involves
 - what the assessment will tell us, and when and how the results of the assessment will be reported

2. Requirements of the Standards in respect of the external assessment of the internal audit function

- 2.1 The Standards require that:
- the external assessment must be conducted by a qualified, independent assessor or assessment team from outside the organisation, and that
 - the Service Manager (Internal Audit) should discuss with the Performance and Audit Scrutiny Committee:
 - the form of external assessments, and

- the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest

These requirements are considered below.

The form that the external assessment will take

- 2.2 External assessments may be achieved through a full external assessment, or a self-assessment with independent external validation. Discussions between the Service Manager (Internal Audit) and the Section 151 Officer (Assistant Director - Resources and Performance) have concluded that a full assessment should be undertaken, based on the following factors:
- a full assessment provides a greater level of assurance of the quality of internal audit
 - a full assessment will include suggestions and recommendations for improvement rather than merely list any areas of non-conformance with the Standards
 - other Suffolk councils who have had an external assessment have opted for the full assessment

How the external assessor was chosen

- 2.3 Quotations and service assessment specifications were requested from three organisations, which were identified through the following:
- feedback from other audit managers who had undergone EQA reviews
 - internal audit forums
 - internet searches
 - the Service Manager (Internal Audit's) professional knowledge of this area.
- 2.4 Responses received were then subjected to pass / fail tests regarding whether the potential providers were considered to be both:
- ✓ Qualified – the Standards define this as meaning that competence is demonstrated in the professional practice of internal auditing and the external assessment process. The Standards state that competence can be demonstrated through a mixture of experience and theoretical learning, and that experience gained in organisations of similar size, complexity, sector or industry and technical issues is considered to be more valuable than less relevant experience. Also, the Standards expect that the Service Manager (Internal Audit) will use his professional judgement when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.
 - ✓ Independent – the Standards state that this means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.
- 2.5 The potential providers who passed both of the above tests were then scored against the following criteria:
- ✓ Relevant experience and competence – has the provider the right level of internal audit experience in similar organisations, in terms of both internal audit management and also the performance of external assessments?

- ✓ Price – best price
- ✓ Quality / added value – what value is likely to be added?
- ✓ Efficiency of process – how resource intensive will the exercise be?
- ✓ Reputational weight – CIPFA and IIA are the standards setters and as such are the 'experts' in the field

2.6 The outcome of the above assessment was that the provider who scored highest and was therefore selected as our external assessor was Tilia Solutions Ltd. It is also worth noting that this provider has also been used by some other Suffolk councils who have all given favourable feedback. This provider also represented the least cost option.

2.7 As required by the Standards we have confirmed that the lead assessor for Tilia Solutions Ltd is appropriately qualified and independent. The assessor:

- ✓ is CIPFA qualified
- ✓ has undertaken more than twenty Standards reviews, including six district councils
- ✓ is currently the lead Standards reviewer for CIPFA having developed the methodology they use
- ✓ has worked in local government as both a head of audit and a Section 151 Officer
- ✓ is independent from the councils and has no current connections that would compromise that independence
- ✓ has undertaken Standards reviews at other Suffolk councils

3. What the assessment involves

3.1 The assessor will follow a structured approach which involves the following elements:

- Interviews with key stakeholders to understand how the audit process works in reality and how it is perceived by those being audited. Those being interviewed are currently expected to include:
 - Chairs of the Performance and Audit Scrutiny Committees
 - Chief Executive
 - Section 151 Officer (Assistant Director - Resources and Performance)
 - Monitoring Officer
 - Service Manager (Finance and Performance)
 - Service Manager (ICT)
 - A selection of auditees
 - External Auditor
 - Service Manager (Internal Audit)
 - The internal audit team
- A review of documents to understand how the internal audit function reports, and what is reported including the Annual Internal Audit Report, the Annual Internal Audit Plan, and the Internal Audit Charter
- A review of audit files and working papers

4. What the assessment will tell us, and when and how the results of the assessment will be reported

- 4.1 The Standards aim to promote continued improvement in the professionalism, quality and effectiveness of internal audit services and the external assessment is a key element of this. Therefore, it is expected that the assessment will provide further assurance to Members and senior officers that the internal audit function is effective and provides a professional and quality service that operates in accordance with the Standards. This will also provide further assurance that the Service Manager (Internal Audit)'s annual audit opinion can be relied upon as a key source of evidence in the production of the Annual Governance Statement.
- 4.2 The results of the external assessment will include the assessor's conclusions regarding the level of conformance to each of the Standards as well as any relevant recommendations and suggestions for improvement. These results will be reported to Performance and Audit Scrutiny Committee in May 2018.